



MONTANA RURAL DEVELOPMENT

Multi-Family Housing News *January – March 2007*

Reporting and Financial Examinations “Agreed Upon Procedures”

In August 2006, borrowers were notified of USDA-Rural Development’s “engagement” process concerning annual financial reporting and the Agreed-Upon Procedures.

Beginning with your projects FY2006 actual financial reports, the requirements outlined in 7 CFR 3560.308, 7 CFR 3560.578, and, HB 2 3560, Asset Management, Chapter 4, Section 5, Paragraph 4.32, must be followed with regards to engagements and the preparation of annual financial reports. For those projects with eight (8) or more units, you are required to submit Form RD 3560-7, MFH Project Budget/Utility Allowance, and Form RD 3560-10, Borrower Balance Sheet, electronically via MINC. Borrowers with less than eight units may submit hard copies to the Agency, but utilization of MINC is strongly encouraged. Beginning with your FY2007 proposed operating budget, Form RD 3560-7 with proposed budget expenditures are to be submitted electronically.

Borrowers with projects that have 16 or more units must base their annual financial reports on an “engagement report” completed according to agreed upon procedures established by the Agency and specified in Attachment 4-B to the above referenced section. Borrowers must include the engagement report with their annual financial reports submitted to the Agency. In our August 4, 2006, correspondence you were provided a copy of Handbook Letter 209 (3560) Letter of Engagement.

Borrowers with less than 16 units in their housing projects must submit their annual financial statements (Form RD 3560-7 and 3560-10) as well as a limited scope engagement. A limited scope engagement consists of the borrower’s certified performance standards as outlined in Exhibit 4-7 of Chapter 4, HB 2 3560.

In submitting your annual budgets, we also ask that you review all required management documents to ensure they are current and meet USDA-Rural Development requirements:

- Management Plans must address (at minimum) the 12 items outlined in 7 CFR 3560.102 (b)(1). Owners and managers may utilize Attachment 3-A to HB 2 3560, Chapter 3, as guidance in developing their management plans.
- Form 3560-13, Management Certification. The Agency is no longer required to review and/or approve Management Agreements between owners and managers. However, you are required to complete Form RD 3560-13, Management Certification. We have received further guidance from our National Office regarding this certification as it relates to management fees. This form is to be completed for projects, whether self-managed or whether management is contracted, to identify the project’s fee structure. Currently the form is being revised to address when the Agency changes management fees during the effective period of the certification (i.e. OCAF increases), etc.

- Affirmative Fair Housing Marketing Plan. A project's marketing plan should be reviewed annually by owners to ensure that the project is meeting the marketing needs of the community. Rural Development still requires that plans be updated on a triennial basis. We ask that you review your plan and update as needed and forward to your Servicing Office for review and concurrence.
- Documentation of property and liability insurance, to include fidelity (employee dishonesty) coverage. Project owners are required to maintain adequate property and liability coverage on their properties.
- Documentation that real estate taxes are paid current.

Policy and Procedure Updates

As you are aware, the 7 CFR 3560 and its associated Handbooks (1, 2, and 3) were published on February 24, 2005. The Agency has made every effort to keep you current on the new policy and procedures; however, revisions are frequently occurring.

In an effort to keep current on these changes, we strongly encourage you to access the Agency's national web site at www.rurdev.usda.gov. Click on the link "Regulations" where updated Forms, Handbooks, and 7 CFR 3560 are located. Updates to policy and procedure are also obtained at this web site by clicking on the link to Procedure Notices. Changes to the Handbooks are issued from our National Office via these Procedure Notices.

We are also notified of changes in policy through the issuance of "un-numbered letters" or UL's. It is noted that effective immediately is the issuance of the UL on

Student Income Eligibility for Rural Development Properties. This un-numbered letter provides further guidance, to include Frequently Asked Questions, for renting to student households.

Two items in the FAQ's that stood out were:

- Question 16. If a household is made up of several individuals, and one individual is determined to be an ineligible student, this makes the entire household ineligible as long as the ineligible student is in the household.
- Question 17. Should Borrowers revise their project Management Plans to include the requirements of the Final Rule? Borrowers must **immediately** update their plans for the property to incorporate policies for admittance of students enrolled at institutions of higher education. This should be completed **before** implementing the new student restrictions.

If you are renting to student households, please access the website and review the information provided. We also ask that you immediately provide to your Servicing Specialist an updated Management Plan that 1) addresses the student income rule and implementation policies, and 2) further meets the 12 requirements outlined in 7 CFR 3560.102 (b)(1).

We also recently notified all owners and managers that we now have a "sample" lease that may be utilized by our Section 515 owners. The lease has been reviewed by our Office of General Counsel and it meets all Federal requirements. To be utilized at your project, we require that your legal counsel review the lease and ensure that it meets all local and state requirements. Upon review, your counsel is to provide you a written opinion. This, along with a copy

of the lease to be used, is to be forwarded to your Servicing Specialist.

Remember, all USDA Rural Development Handbooks, Handbook Letters, Forms, and regulations may be obtained from the Rural Development website at www.rurdev.usda.gov.

In addition to the National website, our state website at www.rurdev.usda.gov/mt also provides you with selected forms and links to other pertinent websites and information regarding the Section 515 program.

Centralized Servicing – Project Payments and Tenant Certifications

As you are all aware, processing of monthly payments and tenant certifications became “centralized” at the Central Servicing Center in St. Louis, Missouri, effective November 1, 2006.

We appreciate all the efforts from both the CSC staff and our borrowers in making this transition as seamless as possible. If you have any questions regarding your monthly project worksheet (i.e. overages, late fees, etc), or transmission of a tenant certification, please contact the CSC at 1-866-600-7984.

Rental Assistance – Renewing Agreements

Due to the “continuing resolution” under which the Agency is operating, funds are available on an as needed basis.

You may have already run short on rental assistance. Please be assured as agreements expire, we are making every effort to get funds allocated and obligated as needed. If in approving your worksheet for the month, you receive a notice that an “RA review” is required, please contact your local Servicing Office. We will

then contact the National Office to request that funds be allocated.

In the interim, and to avoid late penalties, borrowers are asked to print their worksheet from the MINC website and mail or fax it to the Centralized Servicing Center at 1-314-206-2481. We are attaching for your convenience a fax transmittal cover sheet.

Tenant Files – Verification and Certification of Information

As annual and triennial site visits get into full swing for 2007, we again want to bring to your attention Agency monitoring requirements related to project operations. 7 CFR 3560, Subpart H, as well as HB 2 3560, Chapter 9, provides Agency staff guidance in conducting site visits and management reviews.

Our visits consist of several components; a physical inspection of the property (both exterior and interior); an occupancy review to include a review of selected tenant files; a management review to determine the project’s financial and operational viability; and a compliance review to include a review of the project’s most current Affirmative Fair Housing Marketing Plan and equal opportunity compliance under Title VI of the Civil Rights Acts of 1964 and 1968, the Fair Housing Amendments Act of 1988, Section 504 of the Rehabilitation Act of 1973, and the Age Discrimination Act of 1975.

Due to the Improper Payments and Information Act, several attachments are currently under revision to be added to HB 2 3560, Chapter 6, Project Occupancy, as they relate to management verifying assets, income and adjustments; a “check list” for required tenant file documentation; as well as, a “fact sheet” for tenants and applicants explaining their responsibilities and rights.

We cannot stress enough the need for adequate third party verification of all

assets, sources of income reported, and documentation of any/all adjustments to include medical, child care, etc.

In reviewing tenant files over the last several months, we have seen more frequently incidences in which tenant households have paid medical expenses utilizing their credit cards. They then submit their credit card payment as a medical deduction. We have received confirmation from the National Office that this is **not** an acceptable practice. It is deemed that once the medical provider has been “paid in full” this is no longer an allowable medical expenditure. There is no way that management, or this Agency, can determine what portion of a tenant’s monthly credit card payment is going to pay the medical bill, or for other charges and interest on the card.

Medical deductions are for those out-of-pocket expenditures being made to the medical provider, pharmacist, etc. In addition, over the counter (non-prescription) medications included as medical expenditures must be for a diagnosed condition. Verification of these expenditures must be included in the file.

Also please remember that mileage for medical reasons is to be reimbursed for travel at the current IRS Mileage Rate, which for 2007 is 20¢ per mile. Information on current mileage rates may be obtained from the IRS web site at www.irs.gov and complete a SEARCH for “Standard Mileage Rates.”

In a newsletter recently issued by “Compliance Solutions,” an affiliate of Zeffert & Associates, we have learned of another method to 3rd party verify employment income. A website link is available whereby affordable housing providers may go to request information online. The good news is that you DO NOT have to pay for these verifications.

When you access the link www.theworknumber.com you click on the link to the “Social Service Agencies” section. As you read the information provided, you will note that social agencies (of which affordable housing providers are included) are not required to pay a fee for these service. You are required to provide some simple information to establish your status as an affordable housing provider and register your fax number on their system. This may take a few days, however, once this is done you will be able to enter the requests for information online. Usually within 5 business days, you will receive your verifications via fax.

Other Issues

North Western Energy, “Energy Connections” notified rental property owners who do not have a Property Owner Agreement, that as tenants vacate their rental property, the utility services will be disconnected if the property remains vacant and someone does not assume responsibility for the service.

Property owners interested in a Property Owner Agreement with North Western Energy should contact them at 1-888-467-2669.



